

TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE



FISCAL NOTE

SB 529 - HB 1184

February 16, 2023

SUMMARY OF BILL: Exempts infant formula, diapers, and wipes from the sales and use tax.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact – \$16,679,800/FY23-24 and Subsequent Years

Decrease Local Revenue – Net Impact – \$7,273,000/FY23-24 and Subsequent Years

Assumptions:

- This legislation applies to any liquid or powder that is to be used for a special dietary use solely as food for infants and children by nature of its simulation of human milk and diapers designed to be used by infants and children.

Infant Formula

- According to Allied Market Research, the U.S. baby infant formula market was valued at \$3,889,000,000 in 2020.
- According to 2020 Census data, Tennessee represents approximately 2.09 percent (6,910,840 / 331,449,281) of the U.S. population; therefore, the estimated sales of baby infant formula were \$81,280,100 ($\$3,889,000,000 \times 2.09\%$) in Tennessee in 2020.
- Based on inflationary rates in FY20-21 and FY21-22, and estimated rates for FY22-23 and FY23-24, the sales of baby infant formula are estimated to be \$94,689,323 in FY23-24. For the purposes of this analysis, this number is assumed to remain constant into perpetuity.
- Pursuant to Tenn. Code Ann. § 67-6-338(a), all sales for which the consideration is a voucher issued under the Special Supplemental Food Program for Women, Infants, and Children (WIC) are exempt from taxation.
- Based on information from the U.S. Department of Agriculture, approximately 55 percent of infant formula is purchased with WIC; therefore, it is assumed that 55 percent of infant formula is currently not subject to taxation.
- The estimated sales of baby formula that is not currently exempt from sales tax are \$42,610,195 ($\$94,689,323 \times 45\%$).
- The current state sales tax rate on the retail sales of food and food ingredients is 4.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the

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effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 4.0276 percent.

- The recurring decrease in state revenue is estimated to be \$1,635,761 $[(\$42,610,195 \times 4.0\%) - (\$42,610,195 \times 4.0\% \times 4.0276\%)]$ in FY23-24 and subsequent years.
- The recurring decrease in local revenue is estimated to be \$1,133,902 $[(\$42,610,195 \times 2.5\%) + (\$42,610,195 \times 4.0\% \times 4.0276\%)]$ in FY23-24 and subsequent years.

Diapers

- Tennessee currently has a yearly three-day sales tax holiday which exempts diapers from taxation. For the purpose of this analysis, it is assumed a disproportionate number of diapers are purchased during this holiday accounting for six days' worth of sales.
- According to the Department of Health, there are 79,122 infants and 323,222 children ages 1 to 4 living in the state as of 2021.
- For the purposes of this analysis, it is assumed that about 75 percent of children ages 1 to 4 use diapers and that the population has grown 0.8 percent per year from 2021 to 2023; therefore, it is assumed that approximately 326,704 $\{[(323,222 \times 75\%) + 79,122] \times 100.8\% \times 100.8\% \}$ Tennessee children use diapers.
- It is further assumed that a child using diapers uses an average of six diapers a day and that the average diaper costs 25 cents.
- The estimated sales of diapers in 2022 not currently exempt from sales tax are \$175,930,104 $(326,704 \text{ children} \times 6 \text{ diapers} \times \$0.25 \text{ cost} \times 359 \text{ days})$.
- The current state sales tax rate is 7.0 percent; the average local option sales tax rate is estimated to be 2.5 percent; the effective rate of apportionment to local government pursuant to the state-shared allocation is estimated to be 3.617 percent.
- The recurring decrease in state revenue is estimated to be \$11,869,670 $[(\$175,930,104 \times 7.0\%) - (\$175,930,104 \times 7.0\% \times 3.617\%)]$ in FY23-24 and subsequent years.
- The recurring decrease in local revenue is estimated to be \$4,843,690 $[(\$175,930,104 \times 2.5\%) + (\$175,930,104 \times 7.0\% \times 3.617\%)]$ in FY23-24 and subsequent years.

Infant Wipes

- Children in Tennessee are estimated to use an average of 20 wipes per day for a total of 2,384,939,200 wipes per year $(326,704 \text{ children} \times 20 \text{ wipes} \times 365 \text{ days})$. These numbers are assumed to remain constant into perpetuity.
- The average cost per wipe is estimated to be \$0.025. Total annual taxable sales of wipes are estimated to be \$59,623,480 $(2,384,939,200 \times \$0.025)$.
- The recurring decrease in state sales tax revenue is estimated to be \$4,022,683 $[(\$59,623,480 \times 7.0\%) - (\$59,623,480 \times 7.0\% \times 3.617\%)]$.
- The recurring decrease in local sales tax revenue is estimated to be \$1,641,548 $[(\$59,623,480 \times 2.5\%) + (\$59,623,480 \times 7.0\% \times 3.617\%)]$.

Total

- The total decrease in state revenue is estimated to be \$17,528,114 $(\$1,635,761 + \$11,869,670 + \$4,022,683)$ in FY23-24 and subsequent years.
- The total decrease in local revenue is estimated to be \$7,619,140 $(\$1,133,902 + \$4,843,690 + \$1,641,548)$ in FY23-24 and subsequent years.

- Fifty percent of tax savings, or \$12,573,627 $[(\$17,528,114 + \$7,619,140) \times 50\%]$ will be spent in the economy on other sales-taxable goods and services.
- The recurring increase in state revenue is estimated to be \$848,319 $[(\$12,573,627 \times 7.0\%) - (\$12,573,627 \times 7.0\% \times 3.617\%)]$ in FY23-24 and subsequent years.
- The recurring increase in local revenue is estimated to be \$346,176 $[(\$12,573,627 \times 2.5\%) + (\$12,573,627 \times 7.0\% \times 3.617\%)]$ in FY23-24 and subsequent years.
- The net recurring decrease in state revenue is estimated to be \$16,679,795 $(\$17,528,114 - \$848,319)$ in FY23-24 and subsequent years.
- The net recurring decrease in local revenue is estimated to be \$7,272,964 $(\$7,619,140 - \$346,176)$ in FY23-24 and subsequent years.

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



Krista Lee Carsner, Executive Director

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